

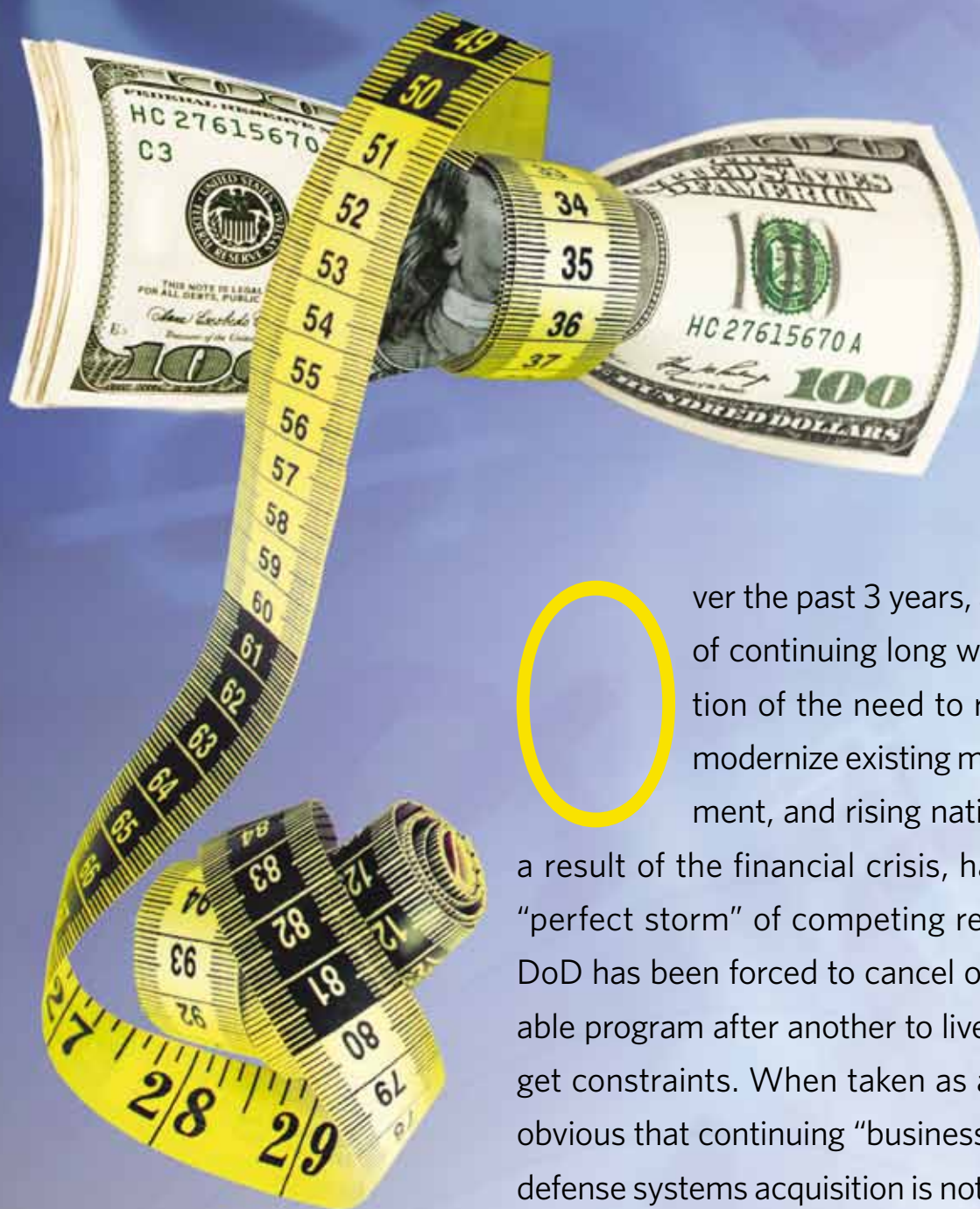
SPECIAL ISSUE

Better Buying Power

Foreword

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Over the past 3 years, a confluence of continuing long wars, recognition of the need to recapitalize/modernize existing military equipment, and rising national debt as a result of the financial crisis, has created a “perfect storm” of competing requirements. DoD has been forced to cancel one unaffordable program after another to live within budget constraints. When taken as a whole, it is obvious that continuing “business as usual” in defense systems acquisition is not sustainable.

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In fact, upon our analysis, we noted that, as compared to the commercial world, where prices decline over time even as technology improves, our products are steadily increasing in cost, often by wide margins. DoD's productivity, its ability to deliver more without more, is going in the wrong direction when we can least afford it.

As a corps of acquisition professionals, our buying strategies must adapt to this new reality and recognize that the costs of our weapon systems must assume a more prominent role in the decision process; our nation's future depends on it. These adjustments in our acquisition approach, tools, techniques, and attitudes are necessary if we are to continue to provide our fighting forces with the material and technical edge required for victory on our terms. It is in this spirit that Dr. Carter released our Better Buying Power (BBP) initiatives and directives in concert with the component acquisition executives (CAEs).

These initiatives resulted from actively seeking inputs from acquisition leaders within DoD and the defense industry and distilled from best practices and lessons learned. More than 130 recommendations were received, analyzed, and vetted, resulting in 23 specific actions contained in the Sept. 14, 2010 Memorandum for Acquisition Professionals. These actions were grouped into five major areas:

- Target Affordability and Control Cost Growth
- Incentivize Productivity and Innovation in Industry
- Promote Real Competition
- Improve Tradecraft in Services Acquisition
- Reduce Non-Productive Processes and Bureaucracy

As acquisition professionals, you will quickly recognize that these activities fall within the existent framework of our acquisition guidance. Pursuit of affordable solutions has always been an objective in our acquisition system and these initiatives seek to further emphasize use of proven best practices for improving acquisition outcomes. The real challenge and ultimate measure of our success is the ability to incorporate these initiatives into the culture of our factories, labs, depots, test ranges, and program offices. For this we require your help.

The implementation of the BBP will not be without its challenges, and one of the biggest challenges is communicating our intent effectively so that the workforce understands how to react to the guidance. One thing we have tried hard to communicate is that our guidance is just that—guidance. It is not a set of ironclad rules that have to be followed in every case. We expect our professional workforce to use its knowledge and experience to do the right thing. For every policy we have announced there are certain to be exceptions and we have delegated the authority to make exceptions to CAEs for all of the BBP policies.

As Dr. Carter and I have interacted with various DoD acquisition offices over the past year, discussing the BBP initiatives, we have been encouraged by the willingness of the government and contractor workforce to make a difference. In the feedback that we have received, we have heard a number of repeated questions about a few of the initiatives and it has been clear that there are misperceptions about some of the guidance in some cases. The articles in this edition of *Defense AT&L* magazine will help answer some of those questions. I would like to point out three interpretations of Dr. Carter's guidance that are NOT correct.

The objective of BBP is NOT to reduce contractor profits to make programs more affordable. Absolutely not. The intent of the BBP is not to reduce the contractor's profit margins. In fact, DoD will accept *increased* profit margins if the contractor can reduce overall program price. In fact, one of the tenets of the fixed price incentive fee (FPIF) contract is to provide contractors an additional profit incentive to drive out program costs. The converse should also be true, however. We should not reward poor performance by industry with high margins, and we should use strong incentives to motivate contractor performance wherever possible.

FPIF contracts are NOT the only acceptable contracting approach. Appropriate contract types should be commensurate with program risks, and associated incentives should be based on objective criteria and tied to contractor performance. Cost-type contracts may be appropriate for efforts where there is a level of uncertainty or risk in the requirements, technology, process, cost, or outcome, such as new development. However, for low-risk programs in the Engineering and Manufacturing Development phase and for most programs in production, where products and processes are well understood, FPIF contracts can be very effective in incentivizing cost control and productivity growth. Indeed, FPIF contracts have benefits over both cost-plus contracts and firm fixed price contracts in this regard. Similar arguments can be made for using FPIF for well-understood knowledge services contracts. Incentivizing industry by sharing the benefits of cost reductions is a powerful tool for the program manager to drive out costs when used in appropriate situations.

A new affordability Key Performance Parameter (KPP) will NOT be mandated on all programs at this time, but affordability constraints will be imposed by CAEs and USD (AT&L). An affordability target will be agreed upon at Milestone A based on long-term budget analysis of the portfolio the product will be part of (ships, for example). Prior to Milestone B, a thorough analysis of significant cost and schedule drivers must be made, considering trade-offs against performance, in order to understand and drive toward affordable options. At

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Milestone B, the results of these trade-off studies will be used to set an affordability "requirement" that the PM must manage to for the duration of the program. This is similar to a KPP and

equally binding on the program. Affordability constraints will be defined for both production and sustainment costs.

Affordability extends well beyond the initial acquisition. For that reason, a life cycle view of every program is taken at every milestone review. Designing systems to reduce costs over the entire life cycle involves an orchestration of technology development, system engineering, logistics, and testing. To highlight the importance of this, I asked the professors at the Defense Acquisition University to examine a variety of these acquisition topics to provide additional best practices and examples of success on improving affordability within acquisition programs. This issue is dedicated to helping the acquisition workforce with practical applications of improving affordability. Hopefully, you will find many golden nuggets in this issue that will help you with your program, but my real intent is to inspire you to think about opportunities to improve affordability within your own programs.

For our community to meet the challenges the department faces, we need to bring all our talents and efforts to bear to ensure that each dollar we spend provides the best possible outcome for our warfighter and our fellow taxpayers. I look forward to your ideas, initiatives, and innovative solutions. I am confident that together, we will succeed.

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